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FINANCIAL CAPITAL IN THE 21TH CENTURY / INTRODUCTION

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The world economy is still in a phase of secular stagnation with persistently low growth rates of real gross domestic product.[1] The postwar litanies of boundless economic growth repeatedly preached by the representatives of capital and the imperialist states have literally run themselves

into the sand. Since the 1980s, financialised capital increasingly drives and determines the global economy, which today operates at a high level of financial consumption, investment and speculation. As a result, debt has risen temporarily beyond the capacity of debtors to repay it at all. The assertion that an increase in inflation would lower the debt level by reducing its value has so far proved to be invalid. The financial problems surrounding debt apply to other critical facts, such as the weakening of accumulation rates, the decline in capital investment, insufficient renewal of the capital stock, chronic low-interest rates, slower population growth and an aging population, lower growth rates of productivity of capital accumulation[2] and a slowdown in innovation. Finally, with declining natural resources such as water, food and energy, climate change initiated by fossil capital is leading to the reduction of biodiversity, stratospheric ozone depletion, ocean acidification, extreme weather conditions, precarious drinking water supply, chemical pollution and changes in soil conditions, to name but a few consequences. Additionally, less growth in international trade for emerging markets and capital flows have taken place. The idea that increased government spending, low-interest rates and the provision of liquidity and cash in the money and capital markets would generate higher economic growth has so far been refuted by reality.

In the countries that have recovered fairly after the financial crisis of 2008, we see again a growing financial industry, while even there, the standard of living and real wages for large parts of the population are stagnating or falling further. Public goods such as health, education and retirement provision continue to be privatised, and their quality standards are dropping, not to mention the standard of living of future generations. Youth unemployment is rising almost everywhere in the world. Simultaneously, debt has also been increased due to low-interest rates and increased government spending, while the size and market power of private banks (together with the shadow banking system) continue to be of paramount economic importance. The policy of easy money or quantitative easing has increased the prices of shares and financial assets, destabilising the growth of emerging markets.

Already before the Covid-19 pandemic, many companies financed themselves with cheap credit as a result of the loose monetary policies of central banks, which led to an increase in corporate debt. In 2019, private debt had already reached dimensions that made it difficult for many companies to repay their loans. Although the aim of more favourable financing opportunities was to increase investment, it did not happen, nor was the expanded credit supply accompanied by an increase in aggregate demand. The purchasing power of households is stagnating. Companies in the industrial sector are still confronted with declining profit prospects, while shortly before the outbreak of the crises, major stock markets were at historic highs. Enormous sums of money circulated on finance markets and drove up asset prices. In the shadow banking system, liquidity buffers were reduced again. There was also an increase in highly leveraged financial transactions, with massive share paybacks and high dividends paid out. For more than 20 years, the shadow banking system (almost 50 per cent of global credit trading takes place in this area) and the market for short-term repo agreements[3] have grown steadily. New debt structures like CLOs and all forms of loans have emerged since the last financial crisis.

In the beginning of the Covid-19 crisis in 2020, we saw a sharp decline in both supply and demand for industrial production worldwide. Besides the huge profits of Big Pharma, the Big Techno Platforms and some Big Banks, the total corporate profits in the U.S. dropped in 2020 by about 30%. Global measures to contain the Covid-19 pandemic triggered also another crisis in the global financial system. As discord over the economic impact of Covid-19 grew from February 2020, stock indices fell precipitously. Investors especially began to buy enormous amounts of U.S. government bonds. Their yields fell and their prices rose, while prices of assets on risky financial markets collapsed, since financial players tried to raise funds by selling securities. But since almost no one wanted to buy these securities at that moment, a sharp drop in prices followed. The flight into cash did not stop, while assets were liquidated. The run on the U.S. dollar increased activities on the exchange markets, while now even safe assets continued to be sold and algorithmic trading was reduced. Even safe government bonds were at the end sold to obtain cash. Volatility was extremely high in the markets.

Already in the years before Covid-19, central banks intervened massively in the shadow banking system and acted as a dealer by conducting repo transactions for banks of all kinds. They no longer served merely as liquidity providers, but became traders on the financial markets. When the Covid-19 financial crisis erupted, central banks worked stronger again with traditional measures like lowering key interest rates and providing liquidity, but also used massive measures like quantitative easing and repo actions and acted as dealers on the markets and organised foreign exchange swaps. Furthermore, they gave credit to nonfinancial actors. The Bank of England bought U.K. government bonds directly on the primary market. So the central banks decided to make substantial funds available, while governments launched additional investment programs in enormous sums. (Wullweber [ER1] 2021)

Despite the collapse of the global economy with the Covid-19 crisis, asset prices started after the short fall to rise again in 2020. In search of higher returns, financial investors again turned to risky financial products and junk bonds, while stock market indices rose to record levels. In order to achieve higher returns, many institutional funds once again invested in highly leveraged and less liquid assets. The money injected by central banks into the markets funded much more financial asset price growth than consumption and investments. At the moment, Joe Biden plans a huge investment package for the U.S. But government investments to GDP in developed economies are at about 3% of GDP, while private investment of capital is around 20% of GDP on average. So a revival of investment depends more on capitalist investment. Economists suggest that the "multiplier effect" of government spending on real GDP growth is not more than 1% point.

At the moment, the politics of cheap money continues to fuel the asset and credit crisis, since debt ratios are already high. We see, for example, already high price-to-earnings ratios, inflated housing assets and high-yield corporate debt. There might also be a new consumer price inflation, creating conditions for a kind of stagflation, while at the same time problems in the supply sector are expected with protectionism, further immigration restrictions and interruptions in the global supply chains.

If inflation rises over the next few years, central banks might have to raise key interest rates and

will then risk a massive debt crisis. But if they maintain a politics of cheap money, stagflation could occur while, at the same time, problems in the supply sector continue. But even if they maintain the second strategy, a debt crisis could follow, since private debt in advanced economies might become unsustainable and their spreads relative to government bonds might rise. Highly indebted corporations would go bankrupt, followed by indebted households and part of the shadow banking and private banking system.

Fictitious and speculative capital (financial instruments and promises of payment) was present as a kind of embryo from the beginning of capitalism, especially when considering that the capitalist production of companies must, in principle, be pre-financed. Thus, debts quasi-insured with the goods produced in the future will arise *sui generis*. Therefore, capital ought not to be understood as an (absolute) positive value, as famous economist Joseph Schumpeter, for example, assumed. Instead, it must be understood as a socio-economic relation in which precisely the intentional negative (debt) is a favourable condition for capitalist production, as Peter Ruben, for example, has explained: capital or capitalisation is debt production *sui generis*. (Ruben 1998: 53)

In many cases, except for the self-financing of large companies, capitalist production processes are set in motion *uno actu* with a credit contract. Furthermore, the possibility for capitalist enterprises to pledge their future goods as collateral implies that their products (the right to extract a surplus with them) are potentially commodity-capital even before anything is produced and then realised as goods. We must as such recognise a form of financialised capital production from the very beginning. This is why Marx named his book *Capital* and not, for instance, *Commodity* or *Money*.

Since interest-bearing, fictitious and speculative capital in the form of loans, bonds, stocks and derivatives increases today much faster and, at least in nominal terms, has taken on a much larger volume than priced-out industrial and commercial capital, the growth of assets cannot feed itself solely from the capital accumulation of the "real economy". Instead, it has to be assumed as endogenous, that is to say, a capital-immanent financial power for the construction of capital having both negative and positive effects on the real economy.[4] [ER2] Financial capital today employs enormous loan sums, fictitious and speculative capital and other multiple capital equivalents characterised by high liquidity, mobility and commensurability. They therefore process particular forms of movement and are perhaps not dissimilar to those of the fashion and marketing industry. The increase of fictitious and speculative capital in relation to an economy's abstract wealth is specifically indicated by an ever-increasing proportion of financial profits within the pool of total corporate profits. Even the profits resulting from derivatives cannot be considered fictitious in a vulgar sense since derivatives are realised in money. Thus, they possess all the characteristics of the power of capital, especially with access to the abstract wealth produced in an economy. Although these profits (dividends, interest and the profitable realisation of assets in money) have a relation to industrial production and traditonal commodity circulation, they are generated auto-referentially by financialised processes. They nevertheless have genuine effects on the "real economy."

The modern financial system is a social relation immanent to capital. This includes the multiplication of capital by redirecting monetary capital from the shrinking to the expanding sectors of the economy and the self-referential production of profits by the financial system, thus securing capitalist power relations in a comprehensive, albeit crisis-like manner. The permanent assessments, evaluations and calculations of the processes of capital reproduction, currently functioning primarily through the financial system, have significant consequences for national economies and the organisation of capitalist power relations as a whole. They strengthen hegemonic capitalist tendencies (within an economic cycle) into the entire antagonistic socio-economic field.

The present Marxist interpretation stands in opposition to several theoretical approaches going back to Ricardo, Veblen, Hilferding and, in part, Keynes. Our understanding also contrasts with "heterodox" positions like Post-Keynesianism and Accelerationism, but also with traditional Marxism. The modern financial system's emergence is here often understood as unrealistic, hypertrophic and dysfunctional, possibly even a distortion of ideal capitalist production. This is a position diametrically opposed to Marxism.

Financial markets today have a dual function: on the one hand, they are used to evaluate economic actors (companies, states and households) through statistical and stochastic power technologies. On the other hand, they function as an instance of the capitalisation of future promises of payment, which are now traded internationally at the speed of light. While accounting in the "real sector" proceeded for a long time in relation to the past, from the 1970s onwards, future-oriented capitalisation, i.e. the calculation or discounting of future expected payment flows and promises, mutated into the most crucial method of the capitalist financial system, with which the attainment of monetary profits takes place either in real terms or is at least financed. Derivatives and all other exotic financial instruments, which must be understood as both power technologies and as new speculative forms of capital with which profits are made, are today a necessary condition for the permanent implementation of financialisation in the entire economic field. They introduce a formative perspective on current concrete risks and make them mutually commensurable. They reduce the heterogeneity of concrete risks to a singular security, i.e. to a single social attribute, namely the abstract risk embodied by derivatives, which must always be realised in money.

As a result, an analysis of the financial system[5][ER3] is not to be carried out as an independent financial sector or a specific type of institutionalisation. Instead, it must be assumed that today all large capitalist companies, without exception, carry out critical financial operations. In *Finance Capital Today*, French economist François Chesnais distinguishes finance as a highly interconnected and interdependent conglomerate consisting of major banks, insurance companies, pension and investment funds, shadow and central banks, transnational industrial and commercial corporations and powerful wholesalers (the organisational level). He then makes a distinction of finance qua finance: the processes of expansion of fictitious capital and derivatives, which are held, designed and traded on the financial markets by large banks, investment funds and hedge funds (the procedural and functional level). (Chesnais 2016: 36)

Concerning such factors characterising companies such as number, size, balance sheet, business volume, degree of interconnectedness, position in the capitalist reproduction process and position of power, there has been an important change in the global financial system and world markets in recent decades. In their analyses, Glattfelder, Vitali and Battiston demonstrate that 737 companies currently influence about 80 per cent of the total global market, with a highly networked core-group of 147 companies controlling almost 40 per cent of the market. This network consists almost exclusively of British and American banks and financial firms. (cf. Sahr: Kindle-Edition: 8621). At its peak, the financial industry of the U.S. generated 40% of all domestic corporate profits and represented 30% of the market price of the stock volume in the U.S. (Das 2015: Kindle Edition: 571). The financial system benefits from the asymmetries of the enormous amount of information generated by the actions of buyers and sellers of complex financial products, with which in turn discrepancies in rating are exploited to lower the cost of capital in general. Additionally, the practice of share buybacks and capital repatriations leads to rising share prices. In January 2008, major U.S. companies used 40% of their cash flow to buy back their own shares. (Ibid.: 604).

The metaphor of a "central nervous system of capital", employed by Tony Norfield to characterise the current financial system, correctly indicates this development of capitalist economies today. If the principle of capital is an engine of a breathing monster called total capital, then the financial system is its brain and central nervous system.[6] (Norfield 2016: Kindle Edition: 168) Furthermore, Randy Martin has emphasised in this context that the financial system is immanent to all three volumes of Marx's *Capital.* (Lee and Martin 2016: 190) It plays in the movements of production/circulation and the connected consequential need to anticipate risk as an important element for the reproduction of capital. The financial system (as at the same time a self-referential system) executes, to a considerable extent, the competition, coordination and regulation of companies (in all sectors). In turn, they presuppose the *a priori* of total capital actualised through the real competition of companies not, for Marx, as a ballet but as a war. Financial capital continuously modulates and provokes the competition of all companies – it is thus an integral part of the capitalist economy and not a cancerous ulcer that a doctor removes in order to restore the healthy body of capital.[7][ER4] For Norfield, the financial system's operations are by no means limited to the multiple strategies of banks, investment funds and other financial institutions. Instead, they affect the capitalist system and its enterprises as a whole since industrial and commercial enterprises must continuously carry out a multitude of financial transactions. Thus, internationally operating companies use private banks to obtain needed currencies to buy imported commodities or to exchange profits from their export transactions into local currencies. Companies borrow from private banks in the short-term to secure their cash flows, or they take out longer-term loans to finance their investments. They issue bonds or shares on financial markets to raise money from investors, and they use derivatives to hedge against adverse movements in interest rates that limit their profitability. For example, pending interest payments can reduce purchasing costs of raw materials, IT systems, buildings, machinery and labour to produce new goods to sell them at a profit. Moreover, the net profits of industrial companies are affected by all kinds of financial transactions, from currency hedging to interest rate risk. This

occurs mainly when companies themselves invest in financial collateral. The financing of capitalist production and circulation is a crucial

[1] Secular stagnation implies that the supply of capital is greater than the demand, leading to a reduction in interest rates. Moreover, the lack of demand also affects the supply of goods, which leads to falling price levels.

[2] To the extent that the microeconomic use of surplus value for the increase of capital simultaneously expands total capital or is accompanied by an increase in productivity, a growth process of production in an economy takes place while gross domestic product rises.

[3] Repos represent an important instrument of the shadow banking system. With a rise of liquidity, repos were developed, contracts under which securities are sold (mostly overnight) at a certain price, plus interest and a premium (haircut). The buyer becomes the owner of the securities. If the seller cannot buy back the securities, they can be sold on the market by the buyer. The securities therefore act as collateral. If, during the term of the repo, the underlying securities lose value, additional securities have to be delivered (margin call). The price of the repo transaction is determined by the quality of the security. The preferred securities for hedging repos are mainly safe government bonds. The problem with repos is that this form of hedging has a crisis-reinforcing effect. If the value of the securities is downgraded in a crisis, we see higher margin calls and higher haircuts. In order to maintain liquidity, players on the market are forced to sell securities, so that their prices fall.

[4] For Lohoff and Trenkle, from the 1980s at the latest, financial capital has been the motor for expanding global commodity production, which, since the 1960s, had already taken place at a high level of productivity and based on progressive process automation. The authors speak here of “induced value production” (Lohoff and Trenkle 2012: 147f.), or of “inverse capital”. First, because value production is based on the extraction of surplus value added through the use of labour by capital. Second, because the growing accumulation of fictitious capital increasingly drives production, which is essential to capital accumulation. Without the production of fictitious capital, functioning capital (the capital invested in the “real economy”) should have entered a cycle of significant devaluation long ago. Financial volumes have grown considerably in the context of global economic transactions. The corresponding figures reflect this financial deepening in the developed economies of Western countries: bank deposits have today on average a value of 200% of the gross domestic product. (Sahr 2017: Kindle-Edition: 4902) The Global Wealth Report estimated financial assets (excluding derivatives) in 2010 at $231 trillion, four times the global GDP. The total volume of derivatives grew from $72 trillion in 1998 to $673 trillion in 2008, twelve times the global GDP at that time. (cf. Lohoff 2014: 6) Correspondingly, the debt of non-financial actors (states, companies and households) in the OECD countries rose from 167% in 1980 to 314% of the economic output in 2009. The increase of 147% is distributed among the state with 49%, companies with 42% and households with 56%. (Sahr 2017: Kindle-Edition: 4916) Worldwide, the debt overhang in 2015 was compared to the global GDP of 286%. (Pettifor 2017: Kindle-Edition: 85) At the same time, financial sector profits have doubled in relation to

corporate profits in developed economies since 1980. These figures sound quite impressive: the total nominal value of derivatives was already $694.4 trillion at the end of 2012, while the global GDP value was $71.1 trillion. The "off-exchange derivatives markets" accounted for a total of $642.1 trillion. (Bank of International Statements 2013) Here, however, there are some limitations in assessing the statistical quantities because the reported sums of money only represent the derivatives' nominal value (the amounts that may be payable; they can also be called virtual because the derivatives are not yet here realised). In 2012, the "gross market value" of the derivatives (the market price of the derivative contracts) had been estimated at $24.7 trillion; it is thus approximately equal to the added GDP of the two major economies, the U.S. and China. Besides, the derivative contracts cancel each other out through hedging, so that the net credit volume of OCT derivatives was estimated at $3.6 trillion at the end of 2012, a sum roughly comparable to the GDP of Germany. (Ibid.)

[5] Louis Althusser describes the system generally as a finite set of elements or elements subsumed under a finite number of categories, including infinity, and joined together for one reason only: attainment of an identical whole. The unity of the system is always the result of unification. (Althusser 2017: 176)

[6] Here, however, one must avoid the danger of simply equating the economic system with an organism since capital is an immanently antagonistic system that cannot achieve the integration that an organism with its homeostasis can acquire.

[7] Nevertheless, Marx developed the financial system only rudimentarily as the controlling instance of capitalist accumulation in *Capital*, Vol. 3 (Marx 1998: 432ff. and 601), although he was already fully aware of the following facts in the *Grundrisse*: "In the money market, capital is posited in its totality; there it *determines price, provides work, regulates production*, in a word, *source of production*" (Marx 1986: 206). For more details, see Heinrich 1999: 299ff.

[ER1]Needs to be added to the bibliography.

[ER2]The Lohoff 2014 reference in this footnote is not in the bibliography. Also, the Global Wealth Report and the 2013 Bank of International Statements should also be included in the bibliography.

[ER3]I would delete this footnote.

[ER4]The Heinrich 1999 reference in this footnote is not located in the bibliography.

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